

# SBA Loan Programs and Resources

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U.S. Small Business Administration Seattle District Office

# What We'll Cover

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- SBA Overview
- 7(a) Guaranteed Loan Program
- What Lenders Look For
- Other SBA Loan Programs
- Additional Resources
- Questions

# General SBA Information

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- Independent agency of Federal Government
- Established to help small business start, grow, and succeed.
- We accomplish our core mission by focusing on:
  - Capital
  - Contracting
  - Counseling

## 7(a) Guarantee Loans

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- The agency's "flagship" financing program
- Available from most commercial lenders
- SBA guarantees up to 85% of loan
- Mitigates risk to lender
- Facilitates otherwise unavailable financing

# Common 7(a) Loan Situations

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- New Business
- Lack of Earnings history
- Insufficient collateral
- Longer term than conventionally available
- Limited capital
- Industry considerations

# 7(a) Loan “Nuts and Bolts”

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- Maximum loan amount
  - \$5M, no minimum
  - Avg. loan = \$370K
- Maximum guaranty = \$4.5M
- Maximum interest rates
  - Prime + 2 ¼ to Prime + 2 ¾
  - higher spreads for smaller loans
- Maturities up to 25 years
- SBA charges a guaranty fee (2%-3.5%)

# Uses of 7(a) Loans

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- Term working capital, inventory, payables
- Lines of credit
- Equipment, tenant improvements, new or existing facilities
- Debt refinance, change of ownership
- About 1/4 of loans go to start-ups (businesses in operation 0-2 years)

# Top Seattle District FY 2014 Loan Recipients by Industry

NAICS Code	Industry	# Loans	Total Amount
722511	Full-Service Restaurants	123	\$39,557,200
722513	Limited-Service Restaurants	60	\$13,393,000
721110	Hotels (except Casino Hotels) and Motels	47	\$91,073,900
621210	Offices of Dentists	34	\$20,468,500
447110	Gasoline Stations with Convenience Stores	34	\$41,606,000
445120	Convenience Stores	26	\$11,241,400
713940	Fitness and Recreational Sports Centers	26	\$8,147,700
524210	Insurance Agencies and Brokerages	23	\$5,842,900
238210	Electrical Contractors and Other Wiring Installation Contractor	21	\$8,759,600
811111	General Automotive Repair	20	\$5,899,900
238220	Plumbing, Heating, and Air-Conditioning Contractors	20	\$6,427,900
621399	Offices of All Other Miscellaneous Health Practitioners	20	\$6,147,800
621310	Offices of Chiropractors	19	\$2,179,500
812112	Beauty Salons	18	\$3,036,600
332710	Machine Shops	18	\$10,231,100
621340	Offices of Physical, Occupational and Speech Therapists and Audiologists	18	\$6,147,800
238990	All Other Specialty Trade Contractors	18	\$3,133,000
453998	All Other Miscellaneous Store Retailers (except Tobacco)	18	\$2,492,300



# 7(a) Loan Eligibility

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- Size
- Type of business
- Use of proceeds
- Character
- Credit elsewhere

# The SBA Loan Process

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- Business makes application to bank
- Bank applies to SBA
- Bank closes and services the loan
- SBA pays guaranty in event of default
- Usually no interaction between SBA and borrower

# Quick Reference to Loan Guarantee Programs

Program	Max Loan Amount	Percent Guaranty	Use of Proceeds	Maturity	Maximum Interest Rates	Guaranty Fees	Who Qualifies	Benefits to Borrowers
7(a) Loans	\$5 million	85% guaranty for loans of \$150,000 or less; 75% guaranty for loans greater than \$150,000 (up to \$3.75 million maximum guaranty)	Term Loan. Expansion/renovation; new construction, purchase land or buildings; purchase equipment, fixtures, lease-hold improvements; working capital; refinance debt for compelling reasons; seasonal line of credit, inventory or starting a business	Depends on ability to repay. Generally, working capital & machinery & equipment (not to exceed life of equipment) is 5-10 years; real estate is 25 years.	Loans less than 7 years: \$0-\$25,000 Prime+4.25% \$25,001-\$50,000 P+3.25% + \$50,000 Prime + 2.25% Loans 7 years or longer: 0-\$25,000 Prime+ 4.75% \$25,001-\$50,000 P+3.75% +\$50,000 Prime + 2.75%	(No SBA fees on loans of \$150,000 or less approved in FY 2014.) Fee charged on guarantied portion of loan only. \$150,001-\$700,000 = 3.0%; \$700,000- \$1M = 3.5%;+ 3.75% on guaranty portion over \$1 million. Ongoing fee of 0.52% on loans over \$150,000.	Must be a for-profit business & meet SBA size standards; show good character, credit, management, and ability to repay. Must be an eligible type of business. Prepayment penalty for loans with maturities of 15 years or more if prepaid during first 3 years. (5% year 1, 3% year 2 and 1% year 3)	Long-term financing; Improved cash flow; Fixed maturity; No balloons; No prepayment penalty (under 15 years)
7(a) Small Loans Is any 7(a) loan \$350,000 and under, except the Community Advantage and Express loans	\$350,000	Same as 7(a)	Same as 7(a)	Same as 7(a)	Same as 7(a)	Same as 7(a)	Same as 7(a) Plus, all loan applications will be credit scored by SBA . If not an acceptable score, the loan can be submitted via full standard 7(a) or Express.	Same as 7(a)
SBAExpress	\$350,000	50%	May be used for revolving lines of credit (up to 7 year maturity) or for a term loan [same as 7(a)].	Up to 7 years for Revolving Lines of Credit including term out period. Otherwise, same as 7(a).	Loans \$50,000 or less; prime+ 6.5% Loans over \$50,000; prime + 4.5%	Same as 7(a)	Same as 7(a)	Fast turnaround; Streamlined process; Easy-to-use line of credit
SBA Veterans Advantage 10/1/14-9/30/15	Processed under SBAExpress \$350,000	Same as SBAExpress	Same as SBAExpress	Same as SBAExpress	Same as SBAExpress	No guaranty fee. Ongoing fee of 0.519% on loans above \$150,000.	Same as 7(a) Plus, small business must be owned and controlled (51%+) by one or more of the following groups: veteran, active-duty military in TAP, reservist or National Guard member or a spouse of any of these groups, or a widowed spouse of a service member or veteran who died during service, or a service-connected disability.	Same as SBAExpress No guaranty fee
	Processed Under 7(a) \$5 million	Same as 7(a)	Same as 7(a)	Same as 7(a)	Same as 7(a)	Same as 7(a) except guaranty fee for non SBAExpress loans will be reduced by 50%. Ongoing fee of 0.519% on loans above \$150,000.		Same as 7(a) but with a reduced guaranty fee.
CapLines: 1. Working Capital; 2. Contract; 3. Seasonal; and 4. Builders	\$5 million	Same as 7(a)	Finance seasonal and/or short-term working capital needs; cost to perform; construction costs; advances against existing inventory and receivables; consolidation of short-term debts. May be revolving.	Up to 10 years, except Builder's CAPLine, which is 5 years	Same as 7(a)	Same as 7(a)	Same as 7(a) Plus, all lenders must execute Form 750 & 750B (short-term loans)	1. Working Capital Revolving Line of Credit 2. Contract can finance all costs (excluding profit). 3. Seasonal working capital needs. 4. Builder Finances direct costs when building commercial or residential

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# Quick Reference to Loan Guarantee Programs

Program	Max Loan Amount	Percent Guaranty	Use of Proceeds	Maturity	Maximum Interest Rates	Guaranty Fees	Who Qualifies	Benefits to Borrowers
Community Advantage Mission-focused lenders only. Expires 03/15/17	\$250,000	Same as 7(a)	Same as 7(a)	Same as 7(a)	Prime plus 6%	Same as 7(a)	Same as 7(a)	Same as 7(a) Plus lenders must be CDFIs, CDCs or micro-lender targeting underserved market
International Trade	\$5 million	90% guaranty (up to \$4.5 million maximum guaranty)(Up to \$4 million maximum guaranty for working capital )	Term loan for permanent working capital, equipment, facilities, land and buildings and debt refinance related to international trade	Up to 25 years.	Same as 7(a)	Same as 7(a)	Same as 7(a) Plus, engaged or preparing to engage in international trade or adversely affected by competition from imports.	Long term financing to allow small business to compete more effectively in the international marketplace
Export Working Capital Program	\$5 million	90% guaranty (up to \$4.5 million maximum guaranty)	Short-term, working capital loans for exporters. May be transaction based or asset-based. Can also support standby letters of credit	Generally one year or less, may go up to 3 years	No SBA maximum interest rate cap, but SBA monitors for reasonableness	Same as 7(a)	Same as 7(a) Plus, need short-term working capital for exporting.	Additional working capital to increase Export sales without disrupting domestic financing and business plan
Export Express	\$500,000	90% guaranty for loans of \$350,000 or less; 75% guaranty for loans greater than \$350,000	Same as SBAExpress plus standby letters of credit	Same as SBAExpress	Same as SBAExpress	Same as 7(a)	Applicant must demonstrate that loan will enable them to enter a new, or expand in an existing export market. Business must have been in operation for at least 12 months (though not necessarily in exporting).	Fast turnaround; Streamlined process; Easy-to-use line of credit
504 Loans Provided through Certified Development Companies (CDCs) which are licensed by SBA	504 CDC maximum amount ranges from \$5 million to \$5.5 million, depending on type of business.	Project costs financed as follows: CDC: up to 40% Lender: 50% (Non-guaranteed) Equity: 10% plus additional 5% if new business and/or 5% if special use property.	Long-term, fixed-asset loans; Lender (non-guaranteed) financing secured by first lien on project assets. CDC loan provided from SBA 100% guaranteed debenture sold to investors at fixed rate secured by 2nd lien.	CDC Loan: 10- or 20-year term fixed interest rate. Lender Loan: Unguaranteed financing may have a shorter term. May be fixed or adjustable interest rate	Fixed rate on 504 Loan established when the debenture backing loan is sold. Declining prepayment penalty for 1/2 of term.	.5% fee on lender share, plus CDC may charge up to 1.5% on their share. CDC charges a monthly servicing fee of 0.625%-1.5% on unpaid balance Ongoing guaranty fee is 0.9375% of principal outstanding. Ongoing fee % does not change during term.	Alternative Size Standard: For-profit businesses that do not exceed \$15 million in tangible net worth, and do not have an average two full fiscal year net income over \$5 million. Owner Occupied 51% for existing or 60% for new construction.	Low down payment - equity(10,15 or 20 percent) (The equity contribution may be borrowed as long as it is not from an SBA loan) Fees can be financed; SBA /CDC Portion: Long-term fixed rate Full amortization and No balloons
Non-7(a) Loans Microloans Loans through nonprofit lending organizations; technical assistance also provided.	\$50,000	Not applicable	Purchase machinery & equipment, fixtures, leasehold improvements; working capital; etc. Cannot be used to repay existing debt.	Shortest term possible, not to exceed 6 years	Negotiable with intermediary. Subject to either 7.75 or 8.5% above intermediary cost of funds.	No guaranty fee	Same as 7(a)	Direct loans from nonprofit intermediary lenders; Fixed-rate financing; Very small loan amounts; Technical assistance available

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# What Lenders Look For

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- Capacity
- Cash Flow
- Character / Credit
- Contribution
- Collateral

# Capacity: Management Ability

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- Experience
- In the industry
- As a manager or owner
- In that specific business
- Education
- Resume – Classes, Training, etc.
- Capable Management Team  
(staff & advisors)
- Action plan to get necessary skills

# Cash Flow for Start-up Business

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- New or less than two-years in business
- Show that projected earnings can repay loan
- What are your cash flow assumptions: where did you get those numbers?
- How?
  - Check Industry Trade Associations for your stats (National Restaurant Association, local chambers, other businesses in your field, etc.
  - Find your NAICS\* code and check the RMA\*\* Annual Statement Studies (\*North American Industry Classification System; \*\*Risk Management Association, formerly Robert Morris and Associates)
- The “Sixth” C: Customers ...
  - demonstrate your market

# Cash Flow for Existing Business

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- Historical cash flow / income statements
- Purchase of existing business: changes with new ownership
- Debt service to seller who finances some part of existing business purchase



# Character/Credit

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- Payment history
- Personal and business credit history
- Bankruptcy and bad credit
- Criminal history (SBA Form 912)
  - May delay processing of loan
- If married or separated
  - By regulation spouse must sign financials (in community property states)

# Contribution: Your Investment

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- You must use some of your own money/cash
- Indicator of stability, ownership commitment
- How much?
  - New business average 20-35%
- From where?
  - Borrowing from friends and family
  - Borrowing against personal assets
  - Other capital: seller financing or investors

# Collateral: Security for the Loan

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*Collateral are the assets you may lose if your business fails*

- SBA loans secured to the extent possible
- Lenders discount collateral value
- Lack of collateral does not preclude SBA financing
  - SBA guaranteed loans are generally more flexible, in situations where collateral is limited

# Other Financing Sources

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- SBA Microloan Program
  - Community Capital Development
  - Ventures (Formerly Washington CASH)
  - Mercycorps NW
- Other Government Funded Programs
  - USDA
  - SBA Community Advantage
- Newer funding platforms

# Other Resources

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- SCORE [www.score.org](http://www.score.org)
- SBDC Network [www.wsbdc.org](http://www.wsbdc.org)
- Women's Business Centers
  - Seattle: Jennifer Teehan [jennifert@seattleccd.com](mailto:jennifert@seattleccd.com)  
(206) 324-4330 x102
  - Lacey: Liz Jaimeson [ljameson@thurstonedc.com](mailto:ljameson@thurstonedc.com)  
(360) 754-6320
  - Spokane: Cara Weipert [Weipert@snapwa.org](mailto:Weipert@snapwa.org) (509)  
456-7106 x123

# Final Thoughts

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## ● Be Prepared

- Business plan/loan proposal
- Be ready to discuss (with confidence)
- Anticipate lender's questions
- Bring supporting documents
  - ☐ Personal/Business Tax Returns
  - ☐ Personal/Business Financial Statements.
  - ☐ Resume
  - ☐ Cost Documents
  - ☐ Executive Summary
  - ☐ Business Plan

# Questions?

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